

CHAPTER I

INTRODUCTION

1.1 Research Background

One of the most popular quotes in finance and investment is “Do not put all eggs in one basket” which means we should have more than one investment or simply called portfolio. The reason behind is when we just depend on one investment, then if the investment failed, all of the money goes down with the investment, but if we have diversification of investment portfolio, when one of the investment failed, we still have another investment portfolio, which makes the money still saved.

One of the most popular investment instrument is stock market. Through the stock market, investors has a big chance to grab higher return than making saving into bank’s deposit. The stock market also can be an alternative gate for foreign investors to purchasing listed stocks.

In this globalization era, investors tend to have as much as possible investment in different countries. According to Issing (2000) there has been a steady increase in cross-border financial flows around the world over the decades. First, many various institutional investors have expanded their activities geographically. Second, the more mature securities markets have gained a clear cross-border orientation. In many instances, newly issued securities are designed

and offered to the public in such a way to maximize their appeal to international investors.

Globalization of securities markets attracts the attention of various stakeholders in view of recent instability in investment levels and global financial turmoil. It is a known fact that the efficiency and integration tests conducted by different researchers have produced contradictory results, making it difficult to comment on stock market efficiency and integration with definitiveness. Most of the studies individually examined the stock market efficiency (Omran and Farrar, 2006; Gupta and Basu, 2007) and stock market integration (Siddiqui, 2009a; Marashdeh and Shrestha, 2010). There are studies which have examined efficiency considering only Asian markets (Kim and Shamsuddin, 2008) or only US markets (Davidson and Dutia, 1989; Seiler and Walter, 1997). In the same way, the degree of integration was observed separately for Asian markets (Siddiqui, 2009b; Mukherjee and Mishra, 2010) and US markets (Alam and Hasan, 2003). But a comprehensive study of stock market efficiency and integration for the Asian markets with US market is still awaited.

Market efficiency is one of the most important topics in finance and the subject of numerous studies. The notion itself is abstract and although its simplicity, there is not a straight forward pattern to prove the efficiency or not of a market. An efficient market provides on continues basis a platform no opportunities to engage in profitable trading activities. If market is not efficient, the regulatory authorities normally take necessary steps to ensure that the stocks

are correctly priced leading to stock market efficiency. The efficiency of emerging markets is characterized by regular and unexpected changes in variance. It is to be noted that national and international events in the countries pave way for high volatility are found during the periods.

Regarding the integration of markets, several studies indicate that it is a gradual process and takes many years with occasional reversal. Besides, requires major reforms in the financial sector, securities, economic and political processes and the ability of foreign investors to make direct investments (Carrieri, Errunza & Hogan, 2007). The benefits gained are diverse, particularly economic, because integration accelerates the growth of the economies of the countries, have a support in times of crisis (Asness, Israelov & Liew, 2011) and achieve decreasing transaction costs (Thapa & Poshakwale, 2010).

In this research, researcher wants to analyze both of the studies, market efficiency and market integration between the top ten competitive markets in Asia-Pacific. According to the World Economic Forum, the top ten competitive markets in Asia-Pacific for year 2015 are: Singapore, Japan, Hongkong, Taiwan, New Zealand, Malaysia, Australia, South Korea, Republic of China, and the last, Thailand. The top ten countries will have different historical backgrounds, religious beliefs and affiliations, and socio-cultural practices. They also will have different levels of economic development, rates of economic growth, and also have different capital performance. Their economic growth as well as capital market performance has been aided largely by the rapid expansion of

multinational enterprises and the integration of international financial markets which are characteristic of the current phase of globalization. The top ten countries is chosen by the performance of the economics, the development of the markets, the condition of the competitiveness including governance, infrastructure, education, innovation, and the market condition. The countries also chosen by the stability of the market in each countries. This ten countries are listed in the Global Competitiveness Report for year 2015.

The ten countries known for its highly developed economy. For instance, Singapore, Japan, Hongkong, Taiwan, and especially China, which known as "*The Tiger of Asia*" because of its developed economy. Thailand, although stay in the last rank, but Thailand has a good improve on technological readiness, innovation, and business sophistication.

1.2 Research Scope

The focus of this study is to examine the informational efficiency and integration simultaneously between Asia-Pacific countries. The researcher will use the top ten competitive countries in Asia-Pacific: Singapore, Japan, Hongkong, Taiwan, New Zealand, Malaysia, Australia, South Korea, Republic of China, and Thailand as the sample country. The period of the time frame for the sample data focuses within the thirteen years from 2003-2015.

The method used by the researcher are runs test, to test the randomness of the data; augmented Dickey-Fuller and Phillips-Perron test to test the stationarity of the data. The researcher used Pearson correlation and Granger causality test to analyze the short-run relationship between the variables and Johansen's co-

integration test to measure the long-term relationship. To test the market efficiency, the researcher used GARCH (1,1) to analyze whether the stock market is significant in the weak form, semi-strong form, or strong form. The measure of efficiency is shown if the sum of the ARCH (1) and GARCH (1) are close to unity or 1.

1.3 Research Problem

The ten countries in Asia Pacific will have different economic condition and the growth of the economic would be different. The same as the stock market performance of the nations, it will have different volatility and conditions. That makes investments in stock markets considered as risky as investing in developed economy and stock markets. The researcher would analyze:

1. Is there any short-term relationship between the stock market among the top ten competitive countries in Asia-Pacific?
2. Is there any long-term relationship between the stock market among the top ten competitive countries in Asia-Pacific?
3. Are the variables significant in the weak form efficient market hypotheses?

1.4 Research Objective

1. To analyze the short-term relationship between the stock market of the top ten competitive Asia-Pacific countries.
2. To analyze the long-term relationship between the stock market of the top ten competitive Asia-Pacific countries.

3. To analyze the efficiency of the stock market based on the efficient market hypothesis (EMH).

1.5 Research Contribution

Hopefully, this research will give positive advantages and provide contribution to academic and managerial in giving better understanding academic contribution. The academic contribution of this study is to give a better understanding about stock market efficiency and integration. The managerial contribution, for any stock market, different stakeholders or operators are individual/institutional investors, portfolio managers, policy makers and agents/brokers. This study would facilitate them to use international stock markets to diversify their capital and at the same time to hedge against the a typical adverse shocks like recent financial crisis, especially when these shocks exist for a short while. They can use this study for quitting or continuing with existing portfolios.

1.6 Writing Structure

This research will be organized as follows:

CHAPTER I: INTRODUCTION

The first chapter of the research provides research background, scope of the research, research problem, research objective, research contribution, and the systematic writing structure for this research.

CHAPTER II: LITERATURE REVIEW

Chapter II consist of basic related theories definitions and literature review of the study, and some informations regarding the sample countries used in the research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter provides the explanation of the methodology used for this research. Technical data analysis becomes the main focus that concerns the sample, the variable, and the data processing.

CHAPTER IV: FINDINGS

It describes the result of the analysis using the research method, and summarize the results of proceeding the data to find a concrete finality.

CHAPTER V: DISCUSSION AND CONCLUSION

This last chapter provides a brief discussion and description of the findings and it also states the limit of the research and suggestion for future research.